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Evaluation of Family Effects in the Context of Power, Experience and Culture on Business and Management in The Family Firms

Seyfi TOP^{a*}, Özlem ATAN^b, Ercan ÖGE^c Serkan DİLEK^d^{a,c} *Istanbul Aydın University, Istanbul, Turkey*^b *Haliç University, Istanbul, Turkey*^d *Kastamonu University, Turkey*

Abstract

The aim of this study is to examine the relationship among the power factors that located on the family effectiveness. Power is the ability to influence and leading people and business to achieve goals. The effectiveness of family in the family firms evaluated the relationships under the three major sub-title as properties of ownership (capital), experience, and culture. One of the family power is ownership. Ownership covers capital, the board of directors and family leadership, and vision. Another measure of the effects on the family firm is experience. Experience sub-scale also is represented in the two sub-scales such as generations of the governing and participation the general assembly and management in the life cycle of the firm. Another parameter that measures the impact on the family on the firm is culture. Culture in sub-scale will be discussed as family overlapping values, authority and respect between generations compliance with inter-generational commitment or cognitive. We can evaluate that as increase amount of family capital, impress family's representation on board of directors and firm control. As impress family's representation on board of directors and family control of the firm increase family leadership and vision positively. As family's vision gets better and its leadership role systematically gets stable, family effectiveness on firm increases. As family's leadership position improves the family's features of cohesiveness and devotion improves family power over the firm. As increase family's power of leadership and vision increase the use of family's effectiveness on the firm.

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Introduction

Family firms are important, not only because they make an essential contribution to the economy, but also because of the long-term stability they bring, the specific commitment they show to local communities, the responsibility they feel as owners and the values they stand for. Family businesses themselves and especially

* Corresponding Author: Tel: 0090 535 4303423

E-mail Adres:seyfitop@gmail.com

organisations representing the family business sector (at national and international levels) should take an active role in all efforts to raise awareness of the importance of the sector. They should also promote the development of a family business institutional framework in countries in which it is less developed.

Family firms' survival in the future is depends on the capacity of the institutionalized family and business. Family effect is an important element on firms' success and survival. Family effect provides different approaches about the use of family force. Studies on family powers' effect on family firms are still being executed. Most of the studies are about distinction of family firms and professional firms. However studies on the family power are limited. Most researchers have still not agreed even on the term of family firm (Chrisman, Chua and Sharma, 2003). Family entrepreneur systems consists of family and business. Namely ownership and family leadership are sophisticated and also is a power element. For this reason family inherently displays a complicated picture and construction (Murray, 2003). Therefore, family firm is in deed a social-economic system and consist of three sub systems (Duh and Belak, 2009).

One of these sub systems is family's control and audit that represents family's life cycle, family history and customs. Other one is corporate infrastructure that is the reflection of corporate body and represents structures and strategies of creating wealth. The third one is individual family members sub systems that appears by management. Ownership and participation in firms' life time give family power that represents governorship and ability. Business and family are generally undertaken as a one system (Longenecker and Moore, 1991). In our study, family's power effects on the family firm is analysed in three dimensions. These are power, experience and culture dimensions. Power has been based on ownership and governorship. F-PEC scale contributes a lot to family firm studies as the measurement instrument of famiy effect (Cliff and Jennings, 2005).

1.Literature

Family firm indicates a content that contains of intensifying mainly ownership and governorship in a family unit and family members' endeavours of protecting family based relationships in family firm (Özler ve diğ., 2007). In this content, family firm is defined as the firms that are governed by father of family (Öz-Alp,1971; Chua et al., 1999), or the firms that ownership and governorship are holding by a family (Yalçın ve Günel, 2004), or constructions where company governance, ownership, main political decision making bodies and an important part of hierarchical structure are composed of definite family's members (Koçel, 2005), or the companies where either majority interests (Ayrancı ve Semerciöz, 2010) or majority control (Rosenblatt, 1990) is holding by a family or family holds %25 voting right (Potziouris and Wang, 2002) or at least two generations in governorship of firm (Chua et al., 1999), or the firms where family has weighted decision making rights (Ayrancı ve Semerciöz, 2010) and the firms where family members work as chief directors (Potobsky, 1992:601), representing family's values and goals (Astrachan, Klein, and Smyrniotis, 2002;Klein and Bell, 2007). When family power is transferring into a firm, power become a typical important behaviour that reflect family's opinions about relationships in bunching of organisational structure. Power in this study results from interaction of family members, family culture and family investment.

1.1. Family's Effect on Firm

Family effect is influences that generated by interactions of inheritor such as control, audit, leadership, capital and ownership of firm. In other words, family effect refers to family's factors (Duh and Belak, 2009) effecting a firm's behaviours or family members' decisions and behaviours resulting effect on subjects about firms (Ayrancı ve Semerciöz, 2010). Influences generated by family activity that called familism (Habbershon and Williams, 1999). Familism is a state of affair generating by interactions of family or family members and business (Sirmon and Hitt, 2003). Family effects are also considered as a source effect might provide competitive advantages in market (Sirmon

and Hitt, 2003). Family effect or force in this study is a measurement aims to find a modelling of providing a solution on size of interactions of power, experience and culture on family firm and definition of family firm concept (Klein, Astrachan and Smyrniotis, 2005; Astrachan et al., 2002; Kokko, 2010; Klein, 2004).

1.2. Power Element in Family Effect

Power is the ability to influence and leading people and business to achieve goals (Daft, 2008). Power also reflects authority, sanction and force. In this sense, power as a most important element gives family an authority, force and control on the family's ownership firm. The power of property or ownership of a firm comes from capital and also capital gives control, leadership, management, and supervision right to the family members (Astrachan and Zellweger, 2008). That is to say, the amount of family's share of capital or supervision and control in a firm is a power factor. Power influence on the family firm can be divided in three sub system that includes ownership, chairman of board of directors or top management and family's vision or leadership (Astrachan, Klein, and Smyrniotis, 2002). A family firm can also effect another organisation by these elements. Most controversial ownership mechanisms are ownership, management, management and audit or bureaucratic control (Astrachan and Zellweger, 2008). Inheritance is considered as well as governorship and ownership.

1.3. Experience Element in Family Effect

Experience element is aggregated operational and business experiences of family on the base of ownership and management starting from founding of the firm through all generations (Astrachan And Zellweger, 2008). Transferring power and leadership in generations in family firms also includes management construction and ownership, assessing successful and unsuccessful transfer decisions made in the past and considering different decisions and selections for the future (Murray, 2003). Experience element is mostly about inheritors and includes applications in family firms such as family's different generations' control, ownership and management of the firm. Furthermore, contributions of inheritors are also taken into account (Molly, 2009). Experience is measured by the number of generations that takes a role in management and these generations 'participation levels in management.

1.4. Culture Element in Family Effect

Culture is a definite behaviours mass includes beliefs that were developed by a group and common values that are shared by a group. A family as a social group has also its own beliefs and values (Bektaş ve Köseoğlu, 2007). Culture indicates family firm's employment, liabilities and overlapping values. Family liabilities are considered as overlapping of business and family values (Astrachan and Zellweger, 2008). Culture sub scale mainly composed of liabilities and values (Klein et al., 2005). Culture sub scale evaluates how much family liability effects on firm and family's values and goals are overlapping (Duh and Belak, 2009). Values are important sources for development of organisational culture. Family's belief, structure, innovativeness, policies and vision have an important effect as determinants (Athanassiou et al, 2002).

Culture, in this aspect, is overlapping of firm's values and family values (Molly, 2009). If family culture has powerful characteristic that affects organisational culture of firm in a positive way, this characteristic brings advantage as a strategic feature (Bektaş ve Köseoğlu, 2007). Family makes decisions about its future within the boundaries of its culture. Family's all social and economic approaches bear the trace of family culture. In family firms, personal characteristic of founders and family members' experiences that took an active role in development stage of the firm are defined as soul culture in family firm. These reflecting characteristics differ among different firms.

2. Analysis and Methodology

In the literature, F-PEC is recommended as a settled scale to measure family effect on a firm (Klein, 2004). We use F-PEC model as a scale. This is a sufficient scale which was laid by Shanker and Astrachan (1996) and was developed by Astrachan, Klein and Smyrniotis (2002) and trusted by Klein, Astrachan and Smyrniotis (2005). F-PEC stands for family, power, experience and culture and provides a suitable utilisation opportunity emphasising on especially different family firms with a not same features (Molly, 2009). F-PEC focuses on comparison of family participations between different firms and measuring the effects of these participations on firm's success (Corbetta and Salvato,

2004). F-PEC, either strongly effected by family participation or not provides an opportunity for studying about family firm (Klein et al. 2005; Kokko, 2010). Similarly, family effect on family firms index (F-PEC index) is a tested standard equipment that allows researchers to combine different theoretic positions by comparing different data types (Astrachan, Klein, and Smyrnios, 2002). Scale was developed after different pilot scheme on plenty of family firm owners and discussions (Astrachan, Klein, and Smyrnios, 2002). The scale provides an opportunity to total measurement of family effect.

3. Method

In this study, F-PEC scale is utilized to measure family effect on business. Power, experience and culture sub scales are defined as family effect (Molly, 2009). Recurring, ambiguous and insufficient items have been extracted from the scale (Astrachan, Klein and Smyrnios, 2002). F-PEC scale provides an opportunity to have an integrated measurement of family effect. Study's approach: "Family-Power, Experience, Culture (F-PEC)" measures family effects which mark family firms' feature. (Sten, 2007). In the context of scale, 5 point likert scale, which is one of the metric scale types, has been utilized. Scales in this study are defined as 1 "Strongly Disagree", 2 "Disagree", 3 "Neutral", 4 "Agree", 5 "Strongly Agree". 68 questions were asked about family effect. Questions 1-9 are intended to assess organizational, personal and professional qualifications of participants. Questions 10-28 are intended to measure power sub scale which comprises capital, ownership and control (representation on board) management. Questions 29-37 are consist of participants' experience about governing and participating along with generation in governorship and taking active role in governorship subscale. Questions 37-56 are about family features which help us to measure elements of family's cultural power and aimed to assess power sub scale that comprises cultural features such as family's devotion and cohesiveness capacity, authority between generations, cognitive cohesion, leadership and institutionalization. Questions 57-68 are intended to measure the family effect on short term and long term company success in family firms.

3.1. Reason and Aim of the Study

Study's Question: Is there a relationship among the factors that represent family power in family firms? If yes, what is the relationship level? The aim of this study is investigating relationship level between company success and ownership structure (share of capital), experience and culture which are the symbols of family power in SME. This study offers an insight into family power's role in relationships between company and family in family firms. Therefore detailed literature review was executed about family firm, power, experience and culture. Secondly, universally utilized scales were identified and revised in order to make an empirical test. Thirdly, tested relationships and findings were evaluated.

3.2 Target Population and Sample of the Study

This study is limited with the family firms that working actively and registered to Istanbul Chamber of Commerce. A survey was sent out to randomly selected 700 firms and only one third of these firms (244) answered properly. A significant part of surveys were not taken into consideration due to improper filling. Another significant part of the survey was not filled in by companies at all. Filling out this kind of surveys is considered as a big burden by most participants, therefore participation level becomes very low. It is understood that participants (244 companies) significantly represent the target population.

3.3. Limitations and Contributions of the Study

Contribution of the Study: In this study, family effects or force on their firms are limited by power, experience and culture dimensions. There are too few studies in this field in Turkey. It is thought that the findings of the study would give guiding contributions to other researchers interested in this subject. The findings will also be contribution to literature in this field. In addition, having very limited amount of study in this field in Turkey makes this study distinguished. The study aims to make contribution to literature in this field in Turkey and produce new guiding data on the subject of family firms' success and existence.

3.4. Findings (Analysis)

Confidence Analysis of the Scale: Some confidence tests have to be executed since confidence is assessing study's coherency and efficiency according to some confidence test results. Commonly utilized tests in this field could be named as "Cronbach's Alpha", "Split Test Method", "Parallel" and "Absolute Precision Parallel (Strict)". Cronbach's Alpha value can be seen in figure1, is %89. Having Cronbach's Alpha value bigger than %60 is an indicator of scale and survey's success. Some researchers accept Cronbach's Alpha value bigger than %75 while some others accept it is bigger than %70.

Figure 1: Confidence Test Results of the Survey

Criterion	Confidence Test Results
Cronbach's Alpha	0.882
Split	0.891-0.897
Parallel	0.886
Strict	0.890

Confidence test results of the survey can be seen in Figure 1. These results present that the survey has internal consistency and arguments are dependable. Furthermore; Split, Parallel and Strict tests' results are also acceptable values in each confidence interval. It is demonstrated that sample results are consistent and reliable, the survey is successful and internally consistent and findings would be reflecting the facts.

3.4.2. Factor Analysis Results

Factor analysis is a statistical method aimed to measure variables that quantify same structure and qualifications (interrelated variables) by gathering them together and using a small number of factors (Büyüköztürk, 2006). Kaiser-Meyer-Olkin (KMO) Test was executed to determine whether the data set is suitable for factor analysis or not. KMO index, which is used to test sufficiency of the sample, was found as 0.854. This figure indicates that the sample is quite appropriate for factor analysis. Besides, correlation matrix's distinctness from unit matrix, which is the main necessity to utilize factor analysis, should be tested. To do this, Bartlett's Sphericity Test was implemented. The null hypothesis, which suggests that the correlation matrix is equal to the unit matrix, was rejected at the 0.05 level of significance. (See below Figure 3)

Figure2: KMO and Bartlett's Test Results

Kaiser-Meyer-Olkin Measure of Sampling Adequacy	.854
Bartlett's Test of Sphericity	6458.916
Approx. Chi-Square	
Df	242
Sig.	.000

Varimax method, which is one of the perpendicular rotation methods, was applied to first findings attained from principle component analysis. Criteria is used to determine the optimal factor solutions: (a) Number of factors that has core value bigger than 1, (b) Cattell's Scree test result, (c) interpretability of factors. Factor load that has absolute value of 0.50 and greater than 0.50 indicates that there is a strong relationship between factor and variable.

Figure 3: Total Disclosed Variances

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
Factor 1	8.754	25.012	25.012	8.754	25.012	25.012
Factor 2	4.157	11.877	36.889	4.157	11.877	36.889

Factor 3	2.549	7.283	44.172	2.549	7.283	44.172
Factor 4	2.171	6.202	50.374	2.171	6.202	50.374
Factor 5	1.737	4.963	55.336	1.737	4.963	55.336
Factor 6	1.322	3.776	59.112	1.322	3.776	59.112
Factor 7	1.242	3.548	62.660	1.242	3.548	62.660
Factor 8	1.186	3.387	66.047	1.186	3.387	66.047
Factor 9	1.121	3.203	69.250	1.121	3.203	69.250
Factor 10	1.109	3.169	72.419	1.109	3.169	72.419

As can be seen also in Figure 3: 10 factors with a core value bigger than 1 were obtained. Variance explained by these factors about the scale is %72.419. It was identified that the common variances (communalities) of 10 factors vary between 0.67 and 0.99. Therefore all questions were included into factor analysis, no variables were excluded. Power subscale is divided into three factors the first factor is capital or ownership, the second factor is representation in the board and audit, the third factor is persistence of management. The power of experience also divided into two factors, the first factor is generation in management and the second factor is family member's participations to management. The power of culture divided into three factors the first factor is family cohesion and devotion, the second factor is family cohesion and devotion and the third factor is cognitive cohesion and commitment. The other factors are family's effectiveness in short and long term.

3.4.3. Correlation Analysis Results

Figure 4: Kendall's Tau-B Correlation Coefficient Results

	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6	Factor 7	Factor 8	Factor 9	Factor 10
Capital	1	.808* *	.071	.024	.392* *	.055	.007	-.059	-.032	-.091
Control	.808* *	1	-.030	.086	.307* *	-.035	.002	-.090	-.139* *	-.145* *
Leadership Vision	.071	-.030	1	-.093	-.041	.705* *	.307* *	.578* *	.558* *	.621* *
Generation In Management	.024	.086	-.093	1	.012	-.128* *	.070	-.133* *	.081	-.058
Participation To Management	.392* *	.307* *	-.041	.012	1	-.080	-.104	-.178* *	.023	-.061
Family Devotion	.055	-.035	.705* *	-.128* *	-.080	1	.350* *	.526* *	.464* *	.522* *
Authority Between Generations	.007	.002	.307* *	.070	-.104	.350* *	1	.127* *	.160* *	.144* *
Cognitive Cohesion	-.059	-.090	.578* *	-.133* *	-.178* *	.526* *	.127* *	1	.339* *	.428* *
Family Effectiveness Short Term	-.032	-.139* *	.558* *	.081	.023	.464* *	.160* *	.339* *	1	.753* *
Family Effectiveness Long Term	-.091	-.145* *	.621* *	-.058	-.061	.522* *	.144* *	.428* *	.753* *	1

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Due to absence of normal distribution (Jarque_Bera test p value <0.05) in this study, Kendall's Tau-b Relationship Analysis was utilized in order to analyze interrelationship of 10 factors obtained from factor analysis. Findings of interrelationship of family effects on firms in the context of power, experience and culture are represented below. The first pillar of family's power on the firm is capital, gives representation on the board and leadership (vision) while the second pillar is generation in management (represents family's experience) and family members who take an active role in management. The third pillar is in cultural dimension and represented by capacity of family's devotion and cohesiveness, obedience to intergeneration authority and cognitive cohesion. These power elements are defined as factor. As also can be seen in Figure 4, in analysis of the relationship among family factor or family power effects family firm as below:

1. There is a positive relationship between capital investment of family and family effect on the family firm. Family effect on the firm increases as the family capital increases. In this study, if family firms capital is increase than enhances power of firm control by %80.8 and board representation of family consequently become power. The other capital power affects the possibility of family member's participations to the management at the rate of % 39.2. In other words, increase in capital leads the generations' chance of participation to management increase by %39.2. Activity of family as ownership of the firm rise the control of the firm level and the family member's participations to the management also rises. Family capital power don't affect the other factors. We could not find any significant relationship between representation on board and variances such as family's leadership (vision), generation in management, family cohesiveness and devotion and intergeneration devotion

2. Second reflection of power in the family firm is control. As control rises on the firm family representation on the board is intensive. See in figure 4: There is a positive and significant relationship between family control representation on board and family capital in the firm at the rate of %80.8. In addition, under the power subscale, family control of the firm also decrease short term firm effectiveness by %13.9 and effects long term firm effectiveness by %14.5 negatively too. On the other hand, we could not find any significant relationship between representation on board and variances such as family's leadership (vision), generation in management, family cohesiveness and devotion and intergeneration devotion.

3. Family's leadership and vision as a power is an important power factor on family firm. As family's vision gets better and its leadership role systematically gets stable, family effectiveness on the firm increases. As family's leadership position improves, family's features of cohesiveness and devotion improves by %70.5 in a positive direction. In a same way, as family' leadership position improves, its cognitive cohesion increases by %57.8, its authority between generation increase by %30.7, its short term effectiveness increases by %55.8 and its long term effectiveness increases by %62.1. It is appeared that while leadership power effects mainly culture and experience dimension factors significantly, it does not affect capital and representation on board significantly. On the other hand, family's cohesiveness and devotion, intergeneration authority and short/long term firm effectiveness are affected significantly as family's leadership style and vision.

4. Second pillar of family effects that we call it experience as a power is family's effectiveness on the firm. Experience is a factor that defines phases and behaviors of generations in management in family's course of live. When we look at to relationship between factors from experience dimension point of view, there is negative a relations between "Generation in Management factor" and family cohesiveness and devotion by %12.8 and cognitive cohesion by %13.3. These result is interesting. Generation in management create some problem. It can be said to have difficulty integrating family and cognitive cohesiveness and devotion

5. The fifth factor that affects efficiency in family firms is participation of the management of family. Participation of the management is a kind of power for family. The members of family who gain experience on the management affect the capital factor positively. There is a positive relation between the participation of the management of family members and the capital by % 39.2, control by %30.7 and cognitive cohesion % 17.8. We can say that ownership is representing as a management and firm control. Therefore family members of the management influence the capital, firm control and the cognitive cohesion positively and also good relations between them Surprisingly, as family

members managerial experience on family's business increases no effect observed on family cohesiveness, intergeneration authority and vision and company's successes.

6. Another factor that affects efficiency in family firms is family culture's reflection into business. Culture is an important power in this dimension. When we look at to relations among the factors in cultural dimension, family's cohesiveness and devotion effects family's leadership and its vision factor by around %70.5 in a positive way. Family devotion factor play very important role in the leadership and vision factor. Family's devotion leads to an increase of %35 in intergeneration authority between generations. There are also positive relation between the short term effectiveness by %46.4, and by %52.2 in long term effectiveness. On the other hand, relationship among family's devotion factor didn't effect capital, control and participation to management factor along with representation on board are insignificant.

7. The other cultural factor authority between generations is also important family power faactor As a part of culture subscale, intergeneration authority factor affects positively family's leadership and vision factor at the rate of % 30.7 and also positively affects cohesiveness and devotion factor by %35. No significant relationship was found between intergeneration authority and the factors such as power of capital, family members' representation on board, generations' participation levels to management, cognitive cohesion, short term company success and long term company success. Authority between generations factor also affect mutually the family's leadership and vision factor and also positively affects cohesiveness and devotion factor.

8. When we address to cognitive cohesion factor as a part of culture subscale, it is observed that cognitive cohesion factor effects family leadership and vision by %57.8, participating to management by %17.8, family's cohesiveness and devotion by %52.6, effects short term company effectiveness by %33.9 and effects long term company effectiveness by %42.8 in a positive way. Cognitive cohesion is a special and important feature of the family. On the contrary, there is no significant relationship between cognitive cohesion and factors such as power of capital, family members' representation in management, family's leadership and vision, generations' participation levels to management and generations in management.

9. Long and short term company effectiveness factors effect leadership and vision factors by (% 62.1 %62.1) effects family devotion factor by (%52.2 and %52.2), affects cognitive cohesion by (%33.9 and %42.8). in a positive way. It could be said that family's culture which is suitable for business linearly affects family's effect on family firm. Effectiveness both in short term and in long term are very important in terms of using creating power.

Conclusion

In this study we used three kinds of family's power that affect on the family firm. These are ownership, experience and culture that leading family's effectiveness or authority over the firm. Family effect on family firms was investigated by assessing relationship between these factors. Explanation of findings about relationships of the factors can be stated as below: Family capital is an important power factor in family firms. Increasing family capital levels affect family's effectiveness in management and control over the firms enhancing family authority of board representation. We can say, there is a positive relationship among the family capital and the control of the firm and power of board representation. It is an interesting result that capital factor does not create a meaningful and significant relationship in cultural and experience dimension. Moreover, representation of family members on board of directors positively affects short term and long term company activities. We could say that the capital as a power is neutral effectiveness of family emotional and cognitive relations. It could be said that relationship between cultural control of the firm and capital control is insignificant. Leadership and vision come from the ownership, family culture and individual features also special family power. In a same way, there is a positive and quite significant relationship between family's vision and leadership and family cultural factors such as cognitive cohesion, family devotion, short term and long term company effectiveness.

Family members management experience on the firm is a kind of authority and power. There is also a positive relationship (even it is not a powerful and very significant) between "Generation in Management" and cultural factors

such as cohesiveness and devotion and cognitive cohesion. Again there is a meaningful and significant relationship between “Family members’ participation to management” and ownership or power of capital firm control and cognitive cohesion. There is also meaningful relations between representation on board of directors and cognitive cohesion, ownership and control. There is no relations about the other factors of power. This kind of interaction may also be signals of conflict of interest in the family. There is not a meaningful relationship between “Generation in Management” and participation on management and other power factors.

Family culture and value is a kind of social power that affects the family authority. Culture is a power in this dimension. Family’s cohesiveness and devotion affects family’s leadership and its vision positively and significantly related each other. Family’s devotion also leads to be intergeneration authority, in cognitive cohesion, short term and long term effectiveness. In the same way, as family’s leadership position improves and its cognitive cohesion increases. It is understood that while the power of relationship affects factors in culture and experience dimensions significantly. It has no significant effect on relationships in capital and cultural factors. On the other hand, relationship among family’s devotion factor didn’t affect capital, firm control and participation to management factor. It could be said that there is a meaningful relationship among the power and short and long term company effectiveness. As a power or family authority, ownership, leadership, family vision, family cohesiveness and devotion, cognitive cohesion also affect the short and long term company effectiveness.

We can summarize these findings, as increase amount of family capital, impress family’s representation on board of directors and firm control. As impress family’s representation on board of directors and family members’ participation to management increase family leadership and vision positively over the firm. As family’s vision gets better and its leadership role systematically gets stable, family effectiveness on firm increases. As family’s leadership position improves the family’s features of cohesiveness and devotion improves family power over the firm. As increase family’s power of leadership and vision increase the use of family’s effectiveness on the firm. Cultural factor as a power play an important role too. But experience did not see by the participants authority of power.

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